

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00

COME-00 DODE-00 DOE-11 H-01 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02

SS-15 STR-07 TRSE-00 ACDA-12 IGA-02 FTC-01 JUSE-00

OPIC-03 NEA-10 /130 W

-----104315 010428Z /41

R 311550Z JAN 78

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 959

C O N F I D E N T I A L CARACAS 1020

E.O. 11652: GDS

TAGS: ENRG, EINV, VE

SUBJECT: POLITICAL AND OPERATIONAL IMPLICATIONS OF
REDUCED OIL EXPORTS

REF: CARACAS 845

1. SUMMARY. SERIOUS POLITICAL PROBLEMS COULD RESULT IF THERE IS NOT INCREASE IN OIL EXPORTS IN THE NEAR FUTURE, ACCORDING TO A HIGH OFFICIAL OF PETROLEOS DE VENEZUELA. CRITICISM IS LIKELY TO BE DIRECTED AGAINST THE MULTINATIONALS, PARTICULARLY EXXON, AND AGAINST THE GOV AND PETROLEOS FOR THEIR CONTINUED POST-NATIONALIZATION COOPERATION WITH THE COMPANIES. REDUCED FUEL OIL EXPORTS HAVE ALSO SERIOUSLY AFFECTED DOMESTIC GASOLINE PRODUCTION. POSSIBLY AS A RESULT OF THESE PROBLEMS PETROLEOS IS SHOWING MORE INTEREST IN A SETTLEMENT OF THE VARIOUS CLAIMS STILL PENDING AGAINST THE EX-CONCESSIONARIES. END SUMMARY.

2. DR. ALIRIO PARRA, MARKETING DIRECTOR OF PETROLEOS DE VENEZUELA, EXPRESSED SERIOUS CONCERN REGARDING THE POLITICAL AND OPERATIONAL IMPLICATIONS OF THE CURRENT LOW LEVEL OF VENEZUELA'S OIL EXPORTS IN A LENGTHY CONVERSATION WITH THE EMBASSY PETROLEUM OFFICER ON JANUARY 25. PARRA BEGAN BY
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REFERRING TO PROGRESS OVER THE LAST FEW WEEKS IN THE SETTLEMENT OF THE VARIOUS CLAIMS AGAINST THE OIL COMPANIES RELATING TO NATIONALIZATION. HE SAID PETROLEOS IS ENCOURAGED BY RECENT DEVELOPMENTS ON THE ASSET DEDUCTIONS AND THE BACK TAX CLAIMS, AND EMPHASIZED THAT THE COMPANY IS EXTREMELY INTERESTED IN SEEING THESE ISSUES SETTLED QUICKLY.

3. HE THEN PROCEEDED DIRECTLY INTO A DETAILED EXPLANATION OF HIS CONCERN OVER THE POSSIBLE IMPLICATIONS OF THE DEPRESSED LEVEL OF OIL EXPORTS (REFTEL). IF THIS SITUATION CONTINUES, HE BELIEVES IT WILL PROVIDE A FOCUS FOR CRITICISM OF THE MANNER IN WHICH OIL NATIONALIZATION WAS CARRIED OUT, I.E OF THE POLICY ADOPTED BY THE GOV AND CARRIED OUT BY PETROLEOS TO COOPERATE CLOSELY WITH THE EX-CESIONNAIRES IN THE EXPORT MARKETING OF OIL AND IN PURCHASING TECHNICAL SERVICES. HE NOTED THERE HAVE ALWAYS BEEN STRONG POLITICAL FORCES OPPOSED TO THIS ASPECT OF THE GOV'S NATIONALIZATION POLICY WHICH HAVE BEEN WAITING FOR SUCH AN OPPORTUNITY TO CRITICIZE IT.

4. HE ADDED THAT THIS POLITICAL BACKLASH IS LIKELY TO BE DIRECTED PRIMARILY AT EXXON. EXXON HISTORICALLY HAS DOMINATED THE INDUSTRY AND HAS BEEN THE SUBJECT OF THE BITTEREST ATTACKS IN THE PAST. IN THE CURRENT SITUATION, EXXON IS PARTICULARLY VULNERABLE, HE SAID, BECAUSE IT REDUCED OIL OFFTAKE SUBSTANTIALLY IN THE PAST FEW MONTHS. HE INDICATED THAT EXXON WAS ALSO CONCERNED AND HAD AGREED TO MAKE A SPECIAL EFFORT TO INCREASE OFFTAKE OF RESIDUAL FUEL OIL (VENEZUELA'S MAJOR PRODUCT EXPORT) PARRA INDICATED THAT IN JANUARY EXXON ACCEPTED ONLY 30 PER CENT OF THE RESIDUAL FUEL SPECIFIED IN ITS ORIGINAL OFFTAKE CONTRACT BUT HAD OFFERED TO TAKE 60 PER CENT OF THE ORIGINALLY AGREED AMOUNT IN FEBRUARY. PARRA REMARKED THAT IN VIEW OF THE CURRENT OVERSUPPLY IN THE US, EXXON PROBABLY COULD NOT ABSORB MUCH MORE THAN THIS FOR THE TIME BEING. HE EXPECTED CURRENT COLD
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WEATHER IN THE US TO HAVE LITTLE EFFECT ON VENEZUELAN FUEL OIL EXPORTS THIS SEASON.

5. PARRA SAID THE INDUSTRY IS ALSO SUFFERING SEVERE OPERATIONAL PROBLEMS UDE TO THE REDUCED EXPORTS OF RESIDUAL FUEL OIL BECAUSE OF THE EFFECT THIS HAS ON GASOLINE PRODUCTION. LOCAL REFINERIES PRODUCE GASOLINE AS A BY-PRODUCT OF FUEL OIL AND THUS, TO SUPPLY DOMESTIC GASOLINE DEMAND, MUST CONTINUE TO REFINES SUBSTANTIAL AMOUNTS OF CRUDE OIL. PRODUCING AN EXCESS OF FUEL OIL. PARRA EXPLAINED THAT TO DATE, THE GOV HAS FORBIDDEN THE IMPORTATION OF GASOLINE, AND THAT ALL REFINERIES ARE NOW MAXIMIZING THE INPUT OF LIGHT CRUDE OILS WHICH PRODUCE A RELATIVELY HIGHER PROPORTION OF GASOLINE.

6. COMMENT. UNTIL RECENTLY, PARRA HAD LEFT IT TO US TO RAISE THE QUESTION OF THE SETTLEMENT OF THE NATIONALIZATION RELATED ISSUES AND HAD USUALLY INDICATED THAT THEIR SETTLEMENT WAS PRIMARILY THE CONCERN AND RESPONSIBILITY OF THE MINISTRIES OF ENERGY AND OF FINANCE RATHER THAN OF PETROLEOS. THIS VIEW, WHICH WAS ALMOST UNIVERSALLY HELD WITHIN PETROLEOS, APPEARS TO HAVE CHANGED CONSIDERABLY IN RECENT MONTHS, AS INDICATED BY PARRA'S COMMENTS REPORTED ABOVE. WHILE HE CAREFULLY DREW NO LINK AS

SUCH BETWEEN THESE ISSUES AND THE INDUSTRY'S MARKETING PROBLEMS AND CERTAINLY DID NOT INDICATE THAT PETROLEOS HAS WEIGHED IN ON THE SIDE OF THE COMPANIES IN THE HOPE OF INCREASING OIL OFFTAKE, IT WOULD APPEAR THAT PARRA SEES SOME RELATIONSHIP BETWEEN THE TWO (SEE ALSO CARACAS 871). AS PETROLEOS' MARKETING DIRECTOR, PARRA PROBABLY WOULD BE TARGETED PERSONALLY BY ANY POLITICAL ATTACKS ON THE INDUSTRY'S EXPORT MARKETING ACTIVITIES. IT IS THEREFORE NOTABLE THAT HE SEEMED SINCERELY CONCERNED OVER THE EFFECT SUCH CRITICISM WOULD HAVE ON EXXON AS WELL AS ON PETROLEOS, AND THAT HE, IN TURN, DID NOT, REPEAT NOT, CRITICIZE EXXON'S PERFORMANCE WITH REGARD TO OIL OFFTAKE.

7. PARRA, LIKE MANY OTHER VENEZUELAN, IS WELL VERSED IN THE HISTORY OF PAST CONFLICTS BETWEEN THE COMPANIES, LED BY EXXON, CONFIDENTIAL

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AND THE GOV FOR CONTROL OVER THE DEVELOPMENT OF THE INDUSTRY. THIS HISTORY CONTAINS REPEATED INSTANCES IN WHICH THE MULTINATIONALS WERE ACCUSED OF REDUCING PRODUCTION, AND THUS GOVERNMENT REVENUES, AND/OR WITHHOLDING NEW INVESTMENT AS A MEANS OF PRESSURING THE GOV ON TAX AND OTHER POLICIES. WHILE THE EMBASSY NO LONGER MAINTAINS RECORDS ON THESE EARLIER CONFLICTS, THEY HAVE BEEN DOCUMENTED IN OTHER SOURCES, E.G. TUGWELL'S BOOK "THE POLITICS OF OIL IN VENEZUELA", PAGES 91, 123 AND 160. PARRA AND OTHERS ARE INCREASINGLY CONCERNED THAT REDUCTION IN OFFTAKE BY EXXON AND POSSIBLY OTHER COMPANIES MAY BE SEEN BY MANY AS JUST A CONTINUATION OF THE SAME PRESSURE TACTICS USED BEFORE NATIONALIZATION, AND THUS WILL BE USED BY CRITICS OF THE PRESENT POLICY AS AN ARGUMENT FOR CUTTING ALL REMAINING TIES WITH THE MULTINATIONALS. VAKY

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